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SUBJECT: COLOMBIAN BANKING SECTOR PROFITS UP SHARPLY IN 2007

REF: 07 BOGOTA 8255

1. (SBU) SUMMARY: Amid strong economic growth and growing consumer credit demand, Colombian banks booked a USD 2.1 billion profit in 2007, up 13 percent over 2006. The solid performance ran across the financial sector including insurance and pension segments. In particular, local and international banks reported strong profits in commercial lending. The outlook for 2008 remains positive, but profits may slow as uncertainty over the impact of a recession in the United States and an up-tick in overdue loans in Colombia reduces lending. END SUMMARY.

2. (U) Most local financial institutions in Colombia had a record year in 2007. Together, revenues on banking, insurance, brokerage and pension services reached USD 5.2 billion. Commercial banks, in particular, experienced strong profit growth as they shifted an increasing part of their capital from portfolio investment in government securities to consumer lending. Colombia's largest bank, Bancolombia, recorded a 38 percent increase in profits to USD 400 million, while the second largest local bank, Banco de Bogota, posted a 39 percent increase in profits to USD 260 million.

3. (SBU) Local units of international banks also registered strong gains with U.S.-based Citibank recording a 51 percent increase in profits to USD 58 million and Spanish-owned BBVA netting USD 160 million in profits, up 30 percent from 2007. The President of Citibank Colombia recently told the Ambassador that the company's Colombian operations were among the most profitable in all of Latin America. BBVA, which has a 12 percent stake in the Colombian banking market, has moved steadily to expand its operations in Colombia. The bank has doubled its investment since 2006, including acquiring the defunct Colombian mortgage bank Granahorrar. BBVA plans to invest a further USD 140 million in Colombia in 2008 through the opening of 18 new branches.

4. (SBU) Overall, the President of Colombia's banking association (Asobancaria) told us the sector's 2007 performance results from the fundamental development of the Colombian economy as the growing middle class's demand for banking services continues to rise. She pointed to Colombia's progress in reducing unemployment in 2007 as another example of the maturation of the economy.

5. (SBU) Nevertheless, local financial analysts have expressed concern that the ratio of overdue loans to total lending increased in 2007, thereby increasing the sector's risk exposure. Likewise, while the GOC estimates the

Colombian economy will grow approximately five percent in 2008, some local analysts now fear a recession in the U.S. could trim as much as one percent off of Colombian growth estimates and, in turn, lead to a tightening of the profitable consumer credit market.

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